

VZCZCXRO6981

OO RUEHAO RUEHCD RUEHGA RUEHGD RUEHGR RUEHHA RUEHHO RUEHMC RUEHMT
RUEHNG RUEHNL RUEHQU RUEHRD RUEHRG RUEHRS RUEHTM RUEHVC
DE RUEHSG #0923 2901052
ZNR UUUUU ZZH
O 161052Z OCT 08
FM AMEMBASSY SANTIAGO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3817
INFO RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS
RUEHSO/AMCONSUL SAO PAULO 0788
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEKJCS/SECDEF WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC

UNCLAS SANTIAGO 000923

STATE PLEASE PASS TO USTR KDUCKWORTH/MSULLIVAN
TREASURY FOR SSENICH
COMMERCE FOR KMANN

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [ECIN](#) [PGOV](#) [PREL](#) [CI](#)

SUBJECT: UPDATE ON CHILE'S ECONOMY: OCTOBER 15 MARKETS SLIDE BACK
DOWN

REFS: SANTIAGO 921 AND PREVIOUS

11. (U) SUMMARY: This is another in a series of updates on major developments in Chile's economy in the face of global financial turmoil. On October 15 copper prices fell and Chile's state-owned copper company projected lower profits. There were also decreases in the exchange rate and the Chilean stock market. The Central Bank published a poll of Chilean banks showing the majority are restricting lending due to fear of greater risk. Chile's Association of Manufacturing Exporters claims it has been lightly impacted by the current crisis. END SUMMARY.

Copper Prices Close Lower

12. (U) Copper closed at approximately \$2.33/pound, a drop of almost 8% on yesterday's price. Press reports indicate Chile's state owned copper company, CODELCO, is projecting a surplus of \$7.4 billion in 2008, a decrease of 12% from 2007. The decrease is due to lower copper prices and higher production costs for the company, trends which will mean a significant cut in profits by 2012. CODELCO's estimate was made before the latest fall in copper prices resulting from the global financial crisis.

Chilean Peso Down vs. U.S. Dollar

13. (U) The exchange rate fell, closing at 627 Chilean Pesos to 1 U.S. Dollar (a decrease of about 2.5% on yesterday's rate).

Small Decrease In The Stock Market

14. (U) The IPSA fell by less than 1% from yesterday's close.

Central Bank Poll Shows Banks Hesitant To Lend

15. (U) The Central Bank published a poll of Chilean banks that shows 50% have increased restrictions on consumer loans and 61% have done the same on mortgages due to fears of greater credit risks resulting from the global financial crisis. 91% of banks have restricted lending to large companies, whereas 74% report greater restrictions on loans to small- to medium-sized firms. According to the poll, 67% of banks reported a fall in the demand for credit.

Smaller Exporters See Little Negative Impact

¶6. (SBU) Embassy contacts at the Chilean Association of Manufacturing Exporters (ASEXMA) report their members have been lightly impacted by the global financial crisis. ASEXMA's members are mostly small- to medium-sized enterprises who export products but also maintain a significant presence in domestic markets. Since the beginning of the crisis ASEXMA's members have successfully diversified their export markets. They report no problems with liquidity, no slow down in investment, and they do not have debt held by foreign institutions. Members do not envision significant layoffs (nor do they expect to hire many new workers).

¶7. (SBU) ASEXMA feels well insulated from the effects of tightening credit among banks because the majority of members deal directly with importers in foreign countries. ASEXMA is concerned about the potential for future growth in their sector. Members have been pushing for longer-term financing programs in Chile (most programs are focused on short-term lending). As a result of the financial crisis, most banks are unwilling to take on greater risk, so the focus will likely remain on the short-term.

SIMONS